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2. Aureon's Fully Distributed Cost Study is Properly Supported.

In AT&T's Petition, AT&T states that with regard to the allocation of Cable and Wire Facilities ("CWF") associated with Ethernet Circuits, "after the ring-mile allocation, Aureon continues to treat Ethernet Rings as having the equivalent of only one 'DS-3 circuit' on each circuit."[43] This statement demonstrates a lack of understanding of how the CWF allocation

[42] *See* Section II.D.1, *supra*, for a description of the database creation process.

[43] AT&T Petition at 30.

formula functions. The first level of allocation for both CWF and Central Office Equipment ("COE") is based on the total quantity of "Ring Miles" (for CWF Allocation) and "Rings" (for COE Allocation). As required by the FCC, Aureon does not "weight" these Ethernet rings based on DS-3 counts or DS-3 equivalents. Rather, each ring, either TDM or Ethernet, essentially count as "1", and the number of miles that ring travels similarly count only as "1 x miles". As all of the Ethernet rings are included in the 100% non-CEA Rings/Ring Miles category, they are only included in the first "layer" of allocations. The second layer (DS-3s) and third layer (DS-1s) are only used for "Joint and Common" facilities. Rings that have both CEA DS-3s and non-CEA DS-3s are allocated on the basis of these DS-3s (and related miles), and finally joint and common DS-3s are allocated on the basis of DS-1 counts. This change in methodology is in accordance with the FCC's directions in the *Second Rate Order*.

AT&T continues to describe the Filed Lease Expense as a "black box," and suggests that it is not appropriate for inclusion in Aureon's cost study. As the FCC ordered, the purpose of this tariff filing is to demonstrate that the CEA tariff rate satisfies the requirements of the FCC's affiliate transaction rule, which provides that the CEA transport lease rate provided by the Network Division to the Access Division must be less than fully distributed cost and fair market value. Aureon has demonstrated in this filing that the lease charge used is in fact lower than the fully distributed cost of the facilities used to provide the service, as well as the fair market value estimate. AT&T mistakenly claims that Aureon must justify not only the amount of lease expense assigned to CEA service, but all of Aureon's expenses, including transport expenses related solely to non-regulated services.[44] Such a comparison is completely irrelevant. The lease

[44] AT&T Petition at 31.

charge assigned to the CEA revenue requirement is the only relevant amount that needs to be justified using the fully distributed cost/fair market value metric, which Aureon has done.

AT&T also raises its previous argument that Aureon should use "sheath miles," rather than ring miles, in the CWF allocation.[45] Aureon's allocation methodology fully captures the relative use of the cable and wire facilities in question, and there is no need or requirement to contemplate alternative methods of allocation, especially those that would impose additional cost burdens on Aureon. Even if Aureon were to use sheath miles rather than ring miles, Aureon does not have the information to even determine the sheath miles associated with each ring. That determination would require a detailed study of its cable and wire facilities, and Aureon has never before undertaken this type of study. AT&T had previously argued that Aureon should use the sheath miles methodology, and the FCC declined to require Aureon do so in the *Second Rate Order.*

With regard to the COE Costs, AT&T states that "Aureon does not offer any explanation as to why there is such as large difference between Aureon's 'COE Lease Charge' and its 'Fully Distributed Cost for COE'." AT&T's point is moot because in this instance, the COE Lease Charge is substantially below the fully distributed costs for COE ($139,828 vs. $420,554, as shown on Lines B-1 and D-4 of the "Cost Market Comparison" Tab of the provided cost support). However, AT&T asserts that even this is inappropriate, despite the fact that the COE Lease Charge is clearly within the allowable parameters as discussed previously.

Aureon has updated its CWF allocation procedures by using "Ring Miles" as the first level of allocation, which eliminates the "weighting" based on DS-3 or DS-3 equivalents. This was required by the FCC in the *Second Rate Order.* No further changes were made to the CWF

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[45] AT&T Petition at 32.

or COE allocation methods as none were required by the FCC to be made, and indeed none are required to properly allocate these costs pools to CEA and Non CEA services based on the principles found in FCC Part 64 rules.

3. Aureon's Circuit Inventory is Accurate.

In response to the FCC's review of Aureon's 2018 tariff filings, Aureon undertook a completely new circuit inventory to serve as the basis for making "Part 64" like allocations between CEA and non-regulated services in connection with the ratemaking process. This inventory was initially completed in August 2018, and further updates were made in conjunction with the April 2019 filing at issue here.[46] Aureon's circuit inventory was an entirely new creation as the data utilized to compile the inventory existed only in scattered records located in disparate parts of the company. In addition, due to short time frames required by the FCC, as well as the limited network staff at Aureon, an external consultant was employed (Paul Nesensen from JSI) to oversee the process in cooperation with Pat Vaughn of Aureon. It is significant to note that each and every update of this inventory, and the allocation process that utilizes it, has resulted in a reduced cost allocation to CEA service.. Those allocations are summarized below:

[46] **[[BEGIN CONFIDENTIAL]]**

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CEA Allocation Percentage		
Filing:	COE	CWF
Original 2016	24%	71%
September, 2018	16%	25%
April, 2019	4%	13%

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[[END CONFIDENTIAL]] These changes are improvements in the overall inventory process, and represent the most current, up-to-date inventory information that Aureon has available for the instant tariff filing. Moreover, these changes do not result in increases to Aureon's CEA allocation. In fact they have resulted in decreases in such allocation, which demonstrates Aureon's good faith effort to include and utilize the most current and accurate inventory information available.

4. Decreases in Traffic Volumes do not Require Decreases in Circuit Counts Because the Number of Circuits Needed is a Function of the Number of IXC Trunks Served, Rather than the Amount of Traffic Sent by the IXCs.

AT&T continues to argue that TDM circuits (i.e., DS-3s and DS-1s) associated with CEA service should show decreases in the number of circuits included in the Aureon network in conjunction with the reductions in minutes of use that are projected to be carried by the CEA network. AT&T further contends that the failure to reduce these circuits is an indicator that the costs incurred in installing and maintaining these circuits are not "used and useful" with regard

to CEA services. AT&T's position is inconsistent with general industry practices and the real world practices of carriers such as AT&T.

First, AT&T currently has TDM connections via direct trunk transport to many rural LECs nationwide. In addition, AT&T's RBOC affiliates provide tandem functions for many rural LECs. In both of these instances, these connections are provisioned to a large extent with DS-1 and DS-3 trunks. As the industry has seen a drastic reduction in both voice customers (access lines) and minutes (access minutes) the number of trunks associated with these transport mechanisms has essentially remained unchanged nationwide. The reason for this is twofold: (1) carriers would actually incur additional costs associated with re-grooming and consolidating trunks continuously based on traffic volumes – whereas the existing trunks only require maintenance in the event of failure, and (2), the trunks must also be kept in place in the event that volumes increase. This is particularly true for a CEA provider like Aureon, as Aureon has connections to many individual ILECs and CLECs, who generate traffic volumes independent of Aureon. Aureon must essentially provision for maximum capacity at all times, and refrain from removing and re-grooming trunks as traffic volumes decrease, just as AT&T does in its nationwide terminations to the multitude of rural ILECs and CLECs that subtend AT&T's tandem switches. AT&T is fully aware of this process, and as such, its complaint in this area is disingenuous.

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Second, this situation is also true with regard to Aureon's circuit forecast. The vast majority, if not all of the increases in circuit counts for CEA service, are a result of changes and improvements in circuit counting processes and procedures, or, as was the case in prior years, were the product of the need to reconfigure the network either temporarily (i.e., POI moves) or other network management needs, and not, as asserted by AT&T, an effort to maximize allocations or otherwise increase revenue requirements. As Aureon has previously stated, the circuit projections are very conservative in nature due to the tremendous level of uncertainly currently associated with CEA service: regulatory uncertainty, technological uncertainty, and financial uncertainty, all face Aureon at this time. In the *Second Rate Order*, the FCC did not take issue with the level of circuit forecasts, and Aureon has determined that they are appropriate at this time.

III. CONCLUSION

Wherefore, for the foregoing reasons, the FCC should deny AT&T's Petition, and allow Aureon's tariff rate to become effective without suspension or investigation.

Respectfully submitted,

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Date: May 10, 2019

FOR PUBLIC INSPECTION

CERTIFICATE OF SERVICE

I, Monica Gibson-Moore, do hereby certify that on this 10th day of May 2019, copies of the foregoing Reply of Iowa Network Services, Inc. d/b/a Aureon Network Services were sent to the following:

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